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EU Pork Exports Forecast to Reach a New Record

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Report Highlights:

Changes in EU livestock policies led to a surge of beef and pork production in 2015. This year, production is expected to remain high. As the domestic and export market is unable to absorb the additional supply, meat is being stockpiled. These quantities are impacting prices, and will support a further export growth of both beef and pork through 2016.

Executive Summary

Cattle & Beef - Dairy market liberalization led to increased cow slaughter.

The main driver of the developments in the cattle and beef sector was the abolishment of the dairy quota in April 2015. This led to a strong expansion of the dairy herd in both 2014 and 2015. The beef cow herd also grew as a result of favorable feed prices and a good demand for high quality beef. As a result of this expansion, the 2015 calf crop increased while later in the year, cow slaughter surged due to the low milk prices. With stagnating domestic consumption, and without Russia as export outlet, this supply is stockpiled and pushing domestic prices downward. Due to low prices and a favorable exchange rate, it is anticipated that exports of beef will increase in 2016.

Swine & Pork - In 2016, EU pork exports are forecast to reach a new record.

High investments in the breeding sector boosted piglet production, fattening and slaughter. In 2015, pork production reached a new record level, and albeit a reduction, pork production is expected to remain at a high level this year. The domestic and world market will be unable to absorb this supply. Storage for about 90,000 metric tons of pork is supported with funding from the European Commission (EC), and an unknown quantity is stored without government aid. The high volumes of stockpiled pork will support a further expansion of exports in 2016. Exports are supported by low domestic carcass prices and, during the past two years, a weakening Euro compared to the US\$, and the currencies in the main Asian markets, China, Japan, South Korea and Vietnam. Later in 2016, competition on the world market is expected to intensify due to increased supply from the United States.

Policy

- -On January 4, 2016, the European Commission (EC) opened a new Private Storage Aid (PSA) program. The PSA was closed on February 3. During the 17 days that the PSA scheme was open, over 90,000 metric tons of pork was stored.
- -NGOs are requesting the EC to develop a new animal welfare strategy. The EC launch a Eurobarometer survey to explore the opinion of EU citizens.

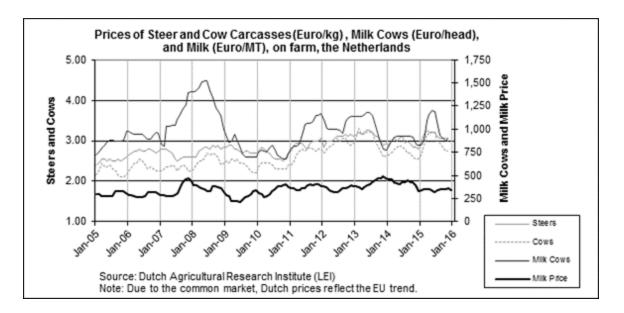
Cattle

Country	EU-28							
Commodity	Animal Numbers, Cattle (1,000 head)							
	USDA	Posts	USDA	Posts	USDA	Posts		
	Official [EU-	estimates [EU-	Official [EU-	estimates [EU-	Official [EU-	estimates [EU-		
	28]	28]	28]	28]	28]	28]		
Market Year	20	014	20	015	20	016		
Total Cattle Beg.								
Stocks	87,619	87,619	88,388	88,406	88,600	88,750		
Dairy Cows Beg.								
Stocks	23,481	23,468	23,557	23,559	23,550	23,600		
Beef Cows Beg.								
Stocks	11,916	11,934	12,033	12,036	12,000	12,150		
Production (Calf								
Crop)	29,300	29,280	29,300	29,550	29,250	29,600		
Extra EU28								
imports	0	0	0	0	0	0		
TOTAL SUPPLY	116,919	116,899	117,688	117,956	117,850	118,350		
Extra EU28								
exports	499	499	600	700	600	800		
Cow Slaughter	10,989	10,989	11,200	11,350	11,250	11,250		
Calf Slaughter	6,545	6,533	6,500	6,450	6,500	6,600		
Total Slaughter	26,224	26,212	26,650	26,700	26,700	26,800		
Loss	1,808	1,800	1,838	1,806	1,850	1,850		
Ending								
Inventories	88,388	88,388	88,600	88,750	88,700	88,900		
TOTAL								
DISTRIBUTION	116,919	116,899	117,688	117,956	117,850	118,350		

Not Official USDA data. Source: Eurostat and FAS Offices in the EU.

Low milk prices supported a surge in cow slaughter in 2015.

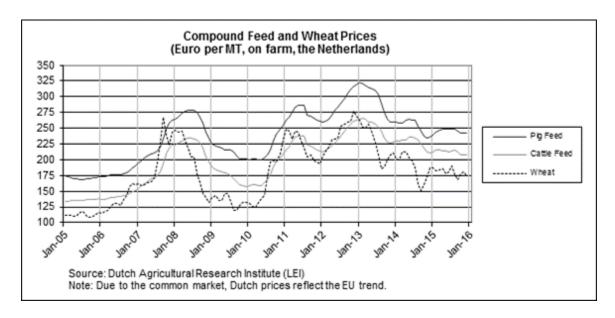
The main driver of the developments in the dairy industry was the abolishment of the dairy quota in April 2015. This led to a strong expansion of the dairy herd in both 2014 and 2015. This estimate is based on official December 2015 census figures of 23 EU Member States (MS). Expansion of dairy cow herds were mainly reported in the United Kingdom, Ireland, and the Netherlands. In these MS, famers significantly invested in their herds and stables to take advantage of the liberalization of the dairy market. These farmers are expected to keep their milk production at high levels despite low milk prices (see graph below). But also in these MS a slowing of the herd expansion is expected during 2016. For other MS, the size of the dairy herds did not grow. The French dairy herd plateaued while significant cuts in the herds are reported in Poland.



Low feed prices and high demand spur increased beef production.

During 2015 and 2016, the number of beef cows is expected to increase most significantly in Spain, France, Poland, the Czech Republic and Bulgaria. Positive factors are the low feed prices (see graph below) and growing domestic as well as third country demand for high quality beef. The French beef herd is forecast to increase as the new subsidy scheme for beef cattle has become available.

As a result of expansion of the EU cow herd, the 2015 calf crop increased while later in the year, cow slaughter surged due to the low milk prices. As a result of the larger cow herd, the calf crop is expected to increase slightly in 2016. Also slaughter of the dairy herd is forecast to remain at high levels due to continued low milk prices.



Beef

Country	EU-28
Commodity	Meat, Beef and Veal (1,000 head)(1,000 metric ton carcass weight)

	USDA Official [EU- 28]	Posts estimates [EU-28]	USDA Official [EU- 28]	Posts estimates [EU-28]	USDA Official [EU- 28]	Posts estimates [EU- 28]
	20	014	2	015	2	016
Slaughter (Reference)	26,224	26,212	26,650	26,700	26,700	26,800
Beginning Stocks	0	0	0	0	0	0
Production	7,443	7,443	7,540	7,670	7,560	7,700
Extra EU28 imports	372	372	370	365	370	360
TOTAL SUPPLY	7,815	7,815	7,910	8,035	7,930	8,060
Extra EU28 Exports	300	301	300	310	310	340
TOTAL Domestic Use	7,515	7,514	7,610	7,725	7,620	7,720
Ending Stocks	0	0	0	0	0	0
TOTAL DISTRIBUTION	7,815	7,815	7,910	8,035	7,930	8,060

Not Official USDA data. Source: Eurostat and FAS Offices in the EU.

Higher slaughter weights further amplify beef production.

The surge of slaughter and beef production in 2015 was forecast in the Annual Report, but based on official figures appears to have been underestimated. The 2015 boost in beef production is expected to be double the volume projected earlier. Slaughter numbers were only slightly underestimated, but the increase of the slaughter weight by over 3 kilo per carcass due to the high portion of dairy cows was not taken into account. However, total EU production is still well below the levels reported during 2000 – 2011 period, when production fluctuated between the 8.1 and 8.4 million metric tons. Beef production rose most significantly in Spain, France, Italy and Poland. This year, slaughter and production levels are expected to be sustained. With stagnating domestic consumption all EU Member States, and without an export outlet, this supply will be stockpiled and will result in pushing domestic prices downward.

Based on an oversupply in 2015, beef exports are expected to surge in 2016.

During the first ten months of 2015, beef imports from Brazil, Uruguay and Australia declined by three percent. While the imports of the higher quality cuts are restricted by the High Quality Beef (HQB) quota, the imports of lower qualities cuts are also limited due to increased domestic availability. Changing eating habits are expected to increase consumption of higher quality cuts, particularly in Germany, but also in Central Europe such as in Bulgaria. This might attract additional imports of higher quality beef from South America, in particular from Argentina though the HQB quota. The domestic supply surplus is mostly lower quality cow meat, which will mainly be processed.

On August 7, 2014, Russia banned EU fresh and frozen beef as part of sanctions on a wide range of agricultural and food products. But as foreseen in the previous reports, the EU diverted their exports to other markets, mainly destinations in the Balkans, Asia and Africa. The EU has been able to continue to divert exports but this expansion to alternative markets has started to stagnate, with the exception of Norway. With the surge in beef production since the beginning of 2015 and limited growth of domestic consumption, the EU has an oversupply of cow beef. It is anticipated that exports of this beef will increase 2016 as a result of low prices and a favorable exchange rate. The Russian and Turkish markets are not expected to open soon. After the enforcement of the EU – Ukraine free trade agreement on January 1, 2016, the Ukraine lifted BSE related import restrictions on EU beef, which may support beef exports.

Swine

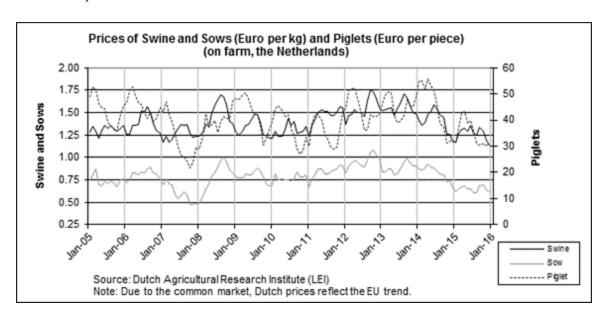
Country		EU-28						
Commodity		Animal Numbers, Swine (1,000 head)						
	USDA official [EU-28]	Posts estimates	USDA official [EU-28]	Posts estimates	USDA official [EU-28]	Posts estimates		

		[EU-28]		[EU-28]		[EU-28]
Market Year Begin	2014		2015		2016	
TOTAL Beginning Stocks	146,172	146,172	148,310	148,341	147,500	148,500
Sow Beginning Stocks	12,511	12,511	12,536	12,541	12,400	12,300
Production (Pig Crop)	261,750	261,750	264,000	266,500	263,000	263,000
Extra EU28 imports	1	1	2	2	2	2
TOTAL SUPPLY	407,923	407,923	412,312	414,843	410,502	411,502
Extra EU28 exports	568	568	580	450	600	500
Sow Slaughter	3,815	3,815	4,000	3,900	4,050	4,000
Total Slaughter	252,865	252,943	258,000	259,950	257,000	258,500
Loss	6,180	6,101	6,232	5,943	6,202	5,802
Ending Inventories	148,310	148,311	147,500	148,500	146,700	146,700
TOTAL DISTRIBUTION	407,923	407,923	412,312	414,843	410,502	411,502

Not Official USDA data. Source: Eurostat and FAS Offices in the EU.

High investments in the breeding sector boosted fattening and slaughter.

The trends projected in the previous report have not changed. It is anticipated that piglet production and slaughter peaked in 2015, and thus will decline in 2016. Based on official January – November figures, slaughter increased by 7 million animals in 2015. This strong upturn of slaughter was caused by the expansion of the sow herd combined with a significant increase in sow productivity. The piglet supply increased mainly in Spain, Denmark and Germany. The number of slaughtered animals was even 2 million animals higher than expected in the Annual Report. Low piglet prices (see graph below) failed to act as a break on the piglet supply as breeders were forced to maintain production to compensate for their high investments. As a result of strict animal welfare regulations, swine breeders are increasingly large, specialized operations in Western Europe.

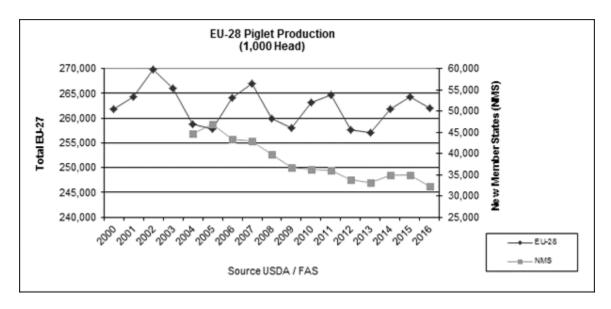


Bad financial results should lead the sector into becoming more market oriented.

The increased supply of piglets and carcasses pressed prices down to about ten percent below the ten-year average. In 2015, 80 percent of the farms in the Dutch swine sector had a negative income, while about 30 percent had serious problems which will only be overcome with major changes, such as cutting or ending production capacity. In the Netherlands, the fatteners benefited from the low piglet and feed prices. They made an average profit of Euro 10,000, while the Dutch breeders lost on average Euro 75,000. Due to the increasing popularity of organic meat and the limited supply, the Dutch organic pork sector achieved better results. The conventional sector wants to change their production concept into different market orientations by adopting perceived improved standards, mainly related to animal welfare, as was done successfully in the poultry sector.

Forced by low prices, piglet supply and slaughter are expected to fall in 2016.

Continuous low prices for piglets are expected to cut the sow stock and curtail piglet production. The decrease in piglet production is expected to mainly occur in Poland and France. In Poland, the major reasons for the cuts are the strong competition from breeders in Western Europe. Also the French sector appears to be uncompetitive as they have a larger number of small to medium-sized pig farms, higher labor costs and stricter environmental constraints. This situation is leading, since late 2014 to a growing unrest among French pig producers. In contrast, Spanish, German and Danish piglet production is expected to continue to grow during 2016. Spain successfully integrated its sector through the chain, and as a result of lower input costs, they are now the second largest piglet and pork producer in the EU after Germany. For more information see FAS GAIN Report SP1603 - *Spain reaches in 2015 record levels on beef and pork production and export*. German piglet production is expected to continue to increase as a result of a new identification of origin campaign by retailers. This campaign promotes pork from swine born, raised and slaughtered in Germany. In addition, the Chinese market reportedly prefers exclusively German pork products. Danish piglet production is expected to remain high. Based on export figures, the Danish breeding sector has shown to be the most competitive. In Central Europe, the demand for Danish piglets is anticipated to increase due to the cut of the domestic sow herd, in particular in Poland (see graph below). In 2016, slaughter is only anticipated to increase significantly in Spain.



Pork

Country	EU-28							
Commodity	Pi	Pigmeat (1,000 head)(1,000 metric ton carcass weight)						
	USDA	Posts	USDA	Posts	USDA	Posts		
	Official [EU-	estimates [EU-	Official [EU-	estimates [EU-	Official [EU-	estimates [EU-		
	28]	28]	28]	28]	28]	28]		
Market Year								
Begin	20	014	20	015	2016			
Slaughter								
(Reference)	252,865	252,943	258,000	259,950	257,000	258,500		

Beginning Stocks	0	0	0	0	0	0
Production	22,533	22,540	23,000	23,350	22,900	23,230
Extra EU28						
imports	14	14	12	12	12	12
TOTAL SUPPLY	22,547	22,554	23,012	23,362	22,912	23,242
Extra EU28						
exports	2,166	2,164	2,350	2,400	2,330	2,500
TOTAL Domestic						
Use	20,381	20,390	20,662	20,962	20,582	20,742
Ending Stocks	0	0	0	0	0	0
TOTAL						
DISTRIBUTION	22,547	22,554	23,012	23,362	22,912	23,242

Not Official USDA data. Source: Eurostat and FAS Offices in the EU.

<u>In 2015</u>, the EU realized a record pork production and exports.

With the elevated slaughter, pork production increased to a record volume of 23.35 million metric tons. The average carcass weight increased from 89.1 kg to nearly 89.8 kg. Last year, pork production rose most significantly in Spain, Italy and Germany. The record production boosted exports to 2.4 million metric tons which is ten percent higher than last year and 40 percent higher than the past ten year's average. Lower exports to Japan were more than compensated by higher exports to China. Exports are supported by low domestic carcass prices and, during the past two years, a weakening Euro compared to the US\$ and the currencies in the main Asian markets, China, Japan, South Korea and Vietnam.

Supply from private storage is expected to continue to depress prices in 2016.

The world market is unable to absorb all the additional supply from the EU. Given the stagnant domestic consumption, about 500,000 metric tons will probably be stored commercially. Only in Central Europe is there a potential for growth of pork consumption. In March 2015, the European Commission (EC) opened a Private Storage Agreement (PSA) scheme for the most affected cuts, which attracted 65,000 MT of pork in seven weeks with storage contracts between 3 and 5 months. On January 4, 2016, the EC opened a new PSA program. This PSA scheme, which ended on February 3, had a higher reimbursement, more flexibility and included lard. Over 90,000 metric tons of pork was stored, predominantly boned legs from Germany and Spain, of which 67 percent was for a 90-day and 25 percent for a 150-day. Private stocks of pork are also anticipated to remain at a high level as it is not expected that the Russian market will re-open anytime soon.

Low carcass prices and a favorable exchange rate will support exports in 2016.

In accordance with the lower slaughter, pork production is forecast to fall this year. Based on the grain and oilseed supplies (see FAS Grain & Feed Report and Oilseed Report), feed prices are expected to remain stagnant, and will not likely affect the slaughter weights in 2016. Polish and German pork production is anticipated to be most significantly cut. This year, Spanish pork production is expected to further increase, but forecast to decline in 2017 as it is currently in a crisis a result of shrinking margins. The EU will face increased competition during 2016 as a result of the trade agreement between South Africa and the United States and South Korea is reportedly finalizing an agreement with Brazil. Despite this, EU product is expected to remain highly competitive. The high volumes of pork stockpiled will support a further expansion of exports in 2016. In 2016, opportunities for China remain positive despite the economic slowdown, as domestic production is anticipated to remain sluggish. Later in 2016, competition of U.S. pork on the world market is expected to intensify due to current good profitability of the U.S. sector.

Policy

The EC opened a PSA scheme for pork in March 2015 and January 2016.

The Russian import ban of 2014 marked the beginning of a difficult market situation for the European pork industry. The loss of the EU's most important export market led to an oversupply situation, seriously undermining the favorable outlook for EU pork production. In March 2015, the European Commission (EC) opened a Private Storage Aid (PSA) scheme for the most affected cuts, which attracted 65,000 MT of pork in seven weeks with storage contracts between 3 and 5 months.

On January 4, 2016, the EC opened a new PSA program, which was closed on February 3 [1]. During the 17 days that the PSA scheme was open, 90,025 metric tons of pork was stored, predominantly boned legs from Germany and Spain. Boned legs took about half of the volume, and fats, the second largest share at 10 percent. The new PSA scheme attracted more pork than the scheme imposed last year because carcass prices fell further and the reimbursement of this program is 20 percent higher. In addition it included lard, which is the product that predominantly was exported to Russia.

Animal Welfare

During the first half of 2016, the Netherlands will chair the Council of the European Union. The NGO Eurogroup for Animals urged the Dutch Government to support the introduction of a new animal welfare strategy. Key issues mentioned are limits on live animal transport times, ban on piglet castration, and a ban on cloning for food and on imports of food derived from clones and their offspring. The EC stated that before they will develop a new animal welfare strategy, they will launch a Eurobarometer survey to explore the opinion of EU citizens. Northwestern EU Member States are commonly proactive in animal welfare policies. For more information see FAS GAIN Report GM16002 - *Germany wants to be trendsetter in animal welfare*.

The pig castration issue can be expected to be more prominently on the agenda again in 2016 as the EU industry's voluntary goal of banning castration by 2018 is getting closer. Animal welfare is however not explicitly mentioned in the EU Presidency's strategy document of the Dutch Government. The main priorities mentioned are to prevent needless legislative pressure, and to create an equal playing field for agricultural production and trade. Another top priority of the Dutch Government is the reduction of Anti-Microbial Resistance (AMR) by a stronger cooperation between the Ministers for Health and Ministers for Agriculture. For more information see FAS GAIN Report NL5040 - *Dutch Priorities for their Chair of the EU Council*.

DISCLAIMER

The numbers in the PSDs in this report are not official USDA numbers, but they result from a collaborative effort by FAS EU offices to consolidate PSDs from all 28 EU member states.

This report is the result of active collaboration with the following EU FAS colleagues in the following member states:

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NOTE

In this report the following HS codes and conversion factors are used:

	HS codes	Conversion factors
Beef	0201, 0202	PW X 1.40 = CW
	021020, 160250	PW X 1.79 = CW
Pork	0203, 021011, 021012, 021019, 160241, 160242, 160249	PW X 1.30 = CW

PW = Product Weight CW = Carcass Weight

ABBREVIATIONS

EC: European Commission

EU: All twenty-eight Member States of the European Union.

MS: An EU Member State

NMS: The thirteen new Member States which joined the EU in May 2004, January 2007 and July 2012

Related reports from FAS Post in the European Union:

Country	Title	Date
Spain	Spain reaches in 2015 record levels on production and export	02/10/16
Germany	Germany wants to be trendsetter in animal welfare	01/22/16
Romania	Romania Livestock Annual Report 2015	01/07/16
Lithuania	Livestock and Products 2015	12/03/15
Latvia	Livestock and Products 2015	12/03/15
Estonia	Livestock and Products 2015	12/02/15
Czech Rep.	Livestock and Products Annual 2015	12/02/15
Poland	Dairy Industry Suffers from the Reduced World Market Demand	11/26/15
Bulgaria	Livestock and Red Meat Sector Update	10/07/15
Poland	2015 Livestock and Products Report	09/21/15
Spain	Spain's Cattle and Beef Production Report 2015	09/17/15
Spain	Spain's Swine and Pork Production Report 2015	09/17/15
EU	Livestock and Products Annual	09/14/15
EU	Pork Markets Swimming in EU Pork	09/09/15
EU	Pork Markets Swimming in EU Pork	09/04/15
EU	A Perfect Storm for EU Dairy Prices	08/20/15
Germany	German Parliament against Cloning	05/26/15
Germany	New Antibiotics Strategy	05/26/15
EU	Dairy and Products Semi-annual	05/20/15
Croatia	Pork Market Brief	05/14/15
Germany	Government advisors think livestock production is not fit for future	04/17/15
EU	Poultry and Products Semi-annual	03/05/15
EU	Livestock and Products Semi-annual	02/25/15
Romania	Romania confirms the second case of BSE	01/29/15

The GAIN Reports can be downloaded from the following FAS website:

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